China

Type: Large Market; Small Share

China is the world's largest market for automobiles and the world's top auto producer. China plans to grow its production of new energy autos and parts by 35 percent annually, dedicating more than $18 billion in government support to the sector through 2020. If achieved, China will very likely become the world's leading producer of electric and hybrid vehicles and their key components by 2030.

Original Equipment Rank	Aftermarket Rank
3	3

The Government of China has viewed its automotive sector, including the auto parts industry, as a pillar industry for many years. The sector is projected to grow rapidly under the government's latest economic development plans, which devote particular attention to the latest automotive technologies employed in electric and hybrid vehicles.

Overview of the Automotive Parts Market in China

China is the third largest market for U.S. auto parts exports. In 2014, there were $2.5 billion in exports with an increase of 13 percent from the previous year. China exported $16 billion in auto parts to the United States in 2013, an increase of 9 percent.

IHS Automotive estimates that light-vehicle sales in China will increase seven percent in 2015 to reach 25.2 million vehicles. SUV's are a fast-growing segment and they are expected to comprise 28 percent of the market. China's growth in new passenger vehicle sales and the aging of China's vehicles will inevitably create an increased demand for both original equipment (OE) parts and aftermarket parts.

New auto-related regulations and policies in China continue to be developed as the market grows. In late 2014, there were some new announcements related to the distribution of aftermarket parts, requirements for automakers sharing technical information with independent repair shops, and establishing minimum service requirements for independent repair shops. This may allow non-original equipment manufacturers to sell to dealers and end users.

Challenges and Barriers to U.S. Automotive Parts Exports to China

U.S. automakers and automotive parts manufacturers face significant challenges in China's automotive market as China has implemented a series of policies that have had a discriminatory effect on foreign enterprises including caps on majority foreign ownership. Additional problems arose after China's economic policymakers began devoting substantial resources, and creating new policies to assist Chinese automobile enterprises in developing cutting-edge New Energy Vehicle (NEV) technologies and building domestic brands that could succeed in global markets.

Chinese policy makers have recently hinted that they may be developing their own standards. Having a third, fourth, or potentially more set of standards will make it even harder to export to Chinese markets, and certainly raise the cost of doing business.

Figure 1: 2013 China Automotive Market

Sales (units)	21,984,079
U.S. Auto Parts Exports to China	$2,587,345,630
Total Chinese Auto Parts Imports	$40,936,539,654
Total Domestic Vehicle Production	22,116,825
Vehicles in Operation (2012)	52,165,000
U.S. Auto Parts Export Growth 2009-2014	+175%

Chinese auto and auto parts producers benefit from many Chinese government policies, including import restraints, domestic content rules, technology transfer policies, export requirements, and domestic and export subsidies. Auto parts targeted by these plans include batteries, electric motors, electronic control systems, and fuel cells.

China remains a major source of counterfeit auto parts, and it is a concern for the industry worldwide. U.S. companies, whether exporting or not, should be diligent about protecting their intellectual property in China and be on the lookout for any counterfeit products for sale not only in China, but worldwide.

China has been slow to update the laws and regulations regarding vehicle modifications, which limits U.S. parts exports of specialty products. In addition, there is concern there will be a certification requirements for aftermarket parts sold in China, which would be burdensome for parts suppliers.

Opportunities for U.S. Companies

While it can be difficult for U.S.-made parts to compete with low-cost Chinese parts, there are opportunities for exports. Many Chinese consumers appreciate the quality and reliability of U.S.-made parts, and they have the means to pay more for them. In addition, those parts with advanced technologies or unique features have the potential to be exported.

Original Equipment (OE)
With Chinese vehicle production expected to increase at an average seven percent annually to reach approximately 31 million units by 2018 it is projected that auto and auto component makers will increase localization in their manufacturing operations.

China requires all foreign vehicle brands that manufacture in China to have a joint venture with a Chinese partner. Currently, over 20 foreign automakers produce vehicles in China, including: GM, Ford, Fiat/Chrysler, Daimler, BMW, Volkswagen, Audi, Peugeot/Citroen, Jaguar/Land Rover, Volvo, Toyota, Honda, Nissan, Infinity, Isuzu, Mazda, Mitsubishi, Suzuki, Hyundai and Proton.

Ford has stakes in two JVs in China, Jiangling Motors Corp., and Changan Ford Automobile. Ford Motor is planning to increase its China production to 1.5 million units by 2015. It is also planning to raise production of vehicles built in the United States and Canada that are exported to China by about 40,000 units. For the first 9 months of 2014, Ford sold 813,412 vehicles in China, up 26 percent from the same period last year.

GM has 10 joint ventures in China. GM, along with its joint ventures, sell vehicles and brands among sold under the Buick, Cadillac, Chevrolet, Opel, Baojun, Wuling and Jiefang nameplates. The GM China plan includes $14 billion in new investments, opening 5 more auto assembly plants by 2018 with a goal of building 5 million units per year in China, up from its current 3.5 million units.

Fiat Chrysler recently established a JV with Guangzhou Automobile Industry Group Co. Fiat Chrysler forecasts that its sales in China would increase to 850,000 vehicles in 2018 from 130,000 in 2014. By 2018, GAC Fiat will be producing six models in China.

OE parts suppliers already in the global supply chain for these vehicle manufacturers could have some advantage in supplying these plants in China, but in most cases the parts will be produced there. For example, Delphi, a major US parts manufacturer currently has 28 manufacturing plants in China with plans to increase this further.

Aftermarket
Beginning on January 1, 2015, automakers are required to provide maintenance and technical information for all models with independent repair shops. In addition, original equipment suppliers will be allowed to sell their products directly to consumers and non-authorized dealers. These changes will encourage greater competition and will allow component manufacturers more access to aftermarket sales.

Currently, China’s after-sales market is still in its development stage, with immense opportunities for growth. The average age of the country’s vehicle fleet is three years old, and after-sales services haven’t become a major issue for cars, which are still under warranty. By 2017, the average age of China’s fleet is projected to rise to 5 years, and after-sales services will become increasingly important. Despite its underdevelopment, the Chinese aftermarket sales generated $73 billion in 2013, compared to the US aftermarket sales of $131 billion in 2012.

A growing after-sales market and a strong potential for clean energy vehicles will encourage U.S. exports followed by investment from suppliers. U.S. aftermarket companies can meet potential buyers at Automechanika Shanghai.

Specialty

Currently China has regulations which prohibit many vehicle modifications, constraining U.S. specialty auto equipment exports. ITA has helped to inform Chinese industry and government representatives about how the United States safely regulates the U.S. aftermarket, including specialty equipment.

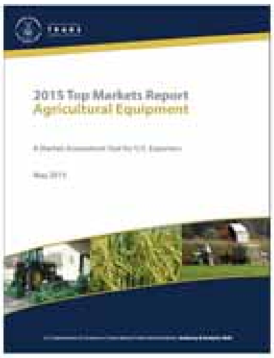
The Specialty Equipment Market Association (SEMA) has a Market Development Cooperator Program (MDCP) award with ITA to help U.S. specialty parts companies increase their exports to China. Each fall, SEMA organizes an event in China where U.S. specialty parts companies can explore the market and meet potential buyers.

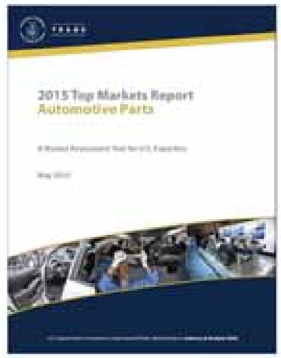
Subsector Best Prospects

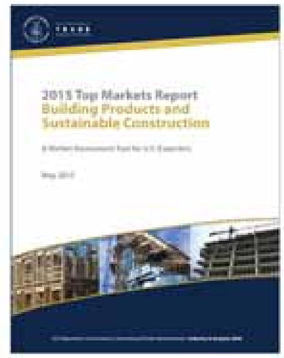
As the Chinese Government works to reduce pollution and the importation of oil, it has been making regulatory changes that target increasing fuel efficiency. These changes will create opportunities for advanced technology components such as turbochargers which decrease fuel consumption.

U.S. companies that specialize in vehicle emissions controls are in a great position to take advantage of the Chinese market as they have more advanced technology than Chinese suppliers.

Next January, China is scheduled to adopt stricter diesel emission regulations (Euro 4) and China is currently drafting stricter passenger vehicle fuel consumption regulations.







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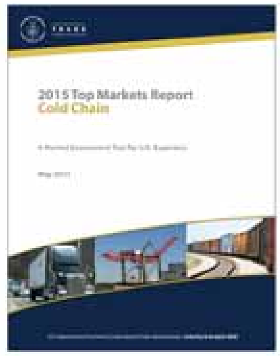

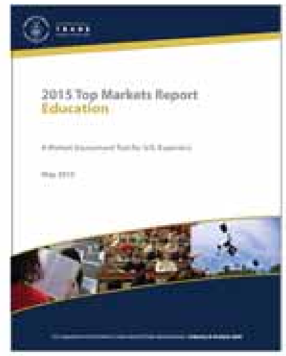

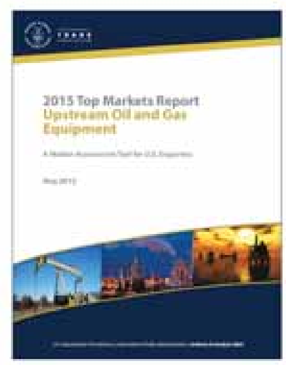

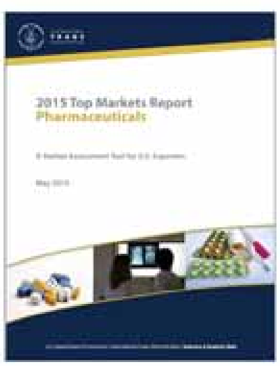

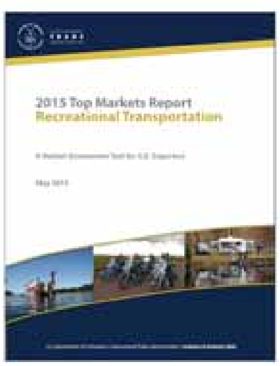

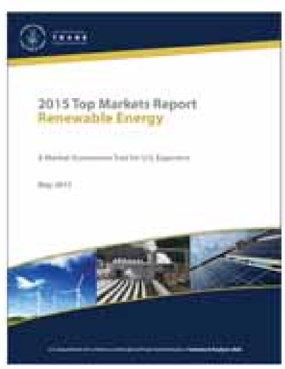

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